

Discussion of “Interest Rate Spreads in an Emerging Economy Under Different Macroeconomic Regimes: Argentina 1994-2013”

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The views expressed herein are those of the author. No responsibility for them should be attributed to the Bank of Canada.

What they do

- Present a descriptive analysis of interest rate spreads in Argentina
 - International comparison
 - Descriptive statistics by type of credit line, type of bank and type of borrower
 - Accounting analysis

- Estimate econometric models that relate spreads (aggregate and by type of bank) to macroeconomic and microeconomic factors
 - Methods: OLS, GMM
 - Samples: 1996-2013; 1996-2001 (currency board) and 2004-2013 (managed floated regime)

Some key findings in the descriptive analysis

- Spreads were on average lower during the managed floated regime for most of the credit line types offered by domestic banks.
- Spreads were on average roughly the same for mortgages during both exchange rate regimes. However, they were more volatile under the currency board.
- Administrative costs represent roughly 40% of the spreads during both exchange rate regimes.
- Taxes currently represent 19% of the spreads. (9% with currency board).

Some key findings in the econometric analysis

- Higher economic activity decreases spreads roughly in the same magnitude during both exchange rate regimes.
- Higher monetization decreases spreads. Impact is much larger under the managed floated regime.
- Higher taxes increase spreads (magnitude is much larger during the current regime).
- Administrative costs are highly collinear with taxes.
- When excluding taxes from the regression, higher administrative costs also increase spreads.

Outline

1. The descriptive analysis
2. The econometric analysis
3. Further work
4. Conclusion

On the descriptive analysis

- Improve description of:
 - *Subsample periods*: are degree of capital mobility and exchange rate regime the only two key differences across the 2 subsamples?
 - *Banking system*: what is the market share of foreign, public and domestic private banks? What is the composition of the credit to the private sector (households versus firms)? What is the degree of dollarization in assets and liabilities of the banking system?
 - *Monetary Policy*
- Why are administrative costs so high? What about the taxes?

On the econometric analysis: model specification

- Try other measures of economic activity: for instance, linearly detrended output.
- Add variables to control for development of bond and stock markets. Positive evolution of alternative sources of finance for firms could exert downward pressure on the spread.
- Try other measures of macroeconomic volatility. Inflation and EMBI Argentina might not be sufficient. Why didn't you try the variance of the interest rate?
- What about institutional factors?

On the econometric analysis: other specification

- Spread = Lending rate – Deposit rate
- One model for the lending rate and another one for the deposit rate.
- Advantages of this proposal:
 - Better understanding of the results:
 - To illustrate this, let's assume that both rates only depend on monetization (M). Then, $LR = a \cdot M$ and $DR = b \cdot M$
 - Expected signs: $a < 0$, $b < 0$, $a - b = ?$
 - Current approach: we only identify $a - b$. We do not know how this is obtained. My approach: we identify a and b .
 - More discipline on the results: we want to be aware of situations in which $a > 0$ and/or $b > 0$.

Further work

- Structural VAR
 - Identify structural shocks such as monetary shocks, technology shocks, etc.
 - Look at response of spreads to these shocks.
 - Use this evidence to guide development of DSGE models with financial frictions:
 - Sign and magnitude of the response of spread to structural shock depend on the shock and on the DSGE model.
 - Example: response to contractionary monetary shock
 - Alpanda et al. (2013): spread goes down.
 - Christiano et al. (2011): spread goes up.

Conclusion

- Very interesting paper. Proposes different econometric models to explain interest rate spreads in Argentina.
- More work is needed on the descriptive analysis and on the robustness of the econometric analysis.

